

MIRACLE FLIGHTS FOR KIDS, INC. AND AFFILIATE
CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED APRIL 30, 2014
AND
INDEPENDENT AUDITORS' REPORT

MIRACLE FLIGHTS FOR KIDS, INC. AND AFFILIATE

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FRIEDMAN LLP
ACCOUNTANTS AND ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Miracle Flights for Kids, Inc.

We have audited the accompanying consolidated financial statements of Miracle Flights for Kids, Inc. and Affiliate which comprise the consolidated statement of financial position as of April 30, 2014, and the related consolidated statements of activities and changes in net assets, functional activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Miracle Flights for Kids, Inc. and Affiliate, as of April 30, 2014, and the changes in its net assets, functional expenses and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink, appearing to read "Friedman LLP". The signature is written in a cursive, stylized font.

November 18, 2014

MIRACLE FLIGHTS FOR KIDS, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

APRIL 30, 2014

ASSETS

Current assets

Cash and cash equivalents	\$ 14,518,877
Cash - restricted for flights	14,141
Certificates of deposit	11,270,046
Other current assets	85,283
Total current assets	25,888,347

Long-term assets

Property and equipment, net of accumulated depreciation of \$293,445	10,703,049
Note receivable - Med Lien Management, Inc.	1,980,000
Investments, annuities	3,644,648
	\$ 42,216,044

LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable and accrued expenses	\$ 143,196
Prepaid rent	77,972
Tenant security deposits	60,564
Total current liabilities	281,732

Long-term liabilities

Pension benefit obligation	2,379,589
Total long-term liabilities	2,379,589

Commitments and contingencies -

Net assets

Unrestricted	39,540,582
Temporarily restricted	14,141
Total net assets	39,554,723
	\$ 42,216,044

See notes to consolidated financial statements.

MIRACLE FLIGHTS FOR KIDS, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED APRIL 30, 2014

	Unrestricted	Temporarily Restricted	Total
Revenue, gains and other support			
Contributions	\$ 1,029,725	\$ 14,141	\$ 1,043,866
Rental income	1,192,414		1,192,414
In-kind contributions	848,816	-	848,816
Investment gain and other income	145,151	-	145,151
	3,216,106	14,141	3,230,247
Net assets released from restrictions	14,376	(14,376)	-
Functional Expenses			
Program services			
Miracle Flights for Kids	1,173,267	-	1,173,267
Miracle Flights for Kids - in-kind	817,976	-	817,976
Supporting services			
Management and general	343,744	-	343,744
Management and general - in-kind	30,840	-	30,840
Fundraising	309,234	-	309,234
Building expenses	566,953	-	566,953
	3,242,014	-	3,242,014
Total Expenses	3,242,014	-	3,242,014
Decrease in net assets	(11,532)	(235)	(11,767)
Net assets, beginning of year	39,552,114	14,376	39,566,490
Net assets, end of year	\$ 39,540,582	\$ 14,141	\$ 39,554,723

See notes to consolidated financial statements.

MIRACLE FLIGHTS FOR KIDS, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
(EXCLUSIVE OF BUILDING EXPENSES)
FOR THE YEAR ENDED APRIL 30, 2014

	Program		Supporting Services			
	Flights		Management and General	Fundraising	Total	
Bank and credit card fees	\$ 6,289	\$ -	\$ 3,098	\$ -	\$ 9,387	
Community outreach	335,219	-	165,107	-	500,326	
Dues and fees	-	11,719	-	-	11,719	
Insurance	-	16,473	-	-	16,473	
Repairs and maintenance	-	7,212	-	-	7,212	
Meals and entertainment	-	798	-	-	798	
Miscellaneous	-	17,105	-	-	17,105	
Occupancy	22,551	7,752	4,933	-	35,236	
Office supplies	12,848	-	6,328	-	19,176	
Postage	7,140	-	3,517	-	10,657	
Printing	14,233	-	7,010	-	21,243	
Professional services	-	115,126	-	-	115,126	
Staff leasing	514,655	176,912	112,581	-	804,148	
Telephone	5,636	1,937	1,233	-	8,806	
Travel resources	1,061,654	-	-	-	1,061,654	
Utilities	-	14,952	-	-	14,952	
Vehicle expense	8,279	-	4,078	-	12,357	
Marketing expense	2,739	-	1,349	-	4,088	
Depreciation	-	4,598	-	-	4,598	
	\$ 1,991,243	\$ 374,584	\$ 309,234	\$ -	\$ 2,675,061	

See notes to consolidated financial statements.

MIRACLE FLIGHTS FOR KIDS, INC. AND AFFILIATE

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED APRIL 30, 2014

Cash flows from operating activities

Decrease in net assets	\$ (11,767)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	198,400
Unrealized gain - annuities	7,713
Changes in assets and liabilities	
Contributions receivable	21,954
Other current assets	(68,718)
Accounts payable and accrued expenses	39,691
Prepaid rent	77,972
Tenant security deposits	60,564
Net cash provided by operating activities	325,809

Cash flows from investing activities

Decrease in cash - restricted	235
Purchases of annuities	(3,652,361)
Purchases of certificates of deposits	(11,000,000)
Purchase of property and equipment	(10,901,449)
Redemption of certificates of deposit	246,187
Loan issuance to Med-Lien Management, Inc.	(2,200,000)
Proceeds from loan repayment by Med-Lien Management, Inc.	220,000
Net cash used in investing activities	(27,287,388)

Net decrease in cash and cash equivalents (26,961,579)

Cash and cash equivalents, beginning of year	41,480,456
Cash and cash equivalents, end of year	\$ 14,518,877

See notes to consolidated financial statements.

MIRACLE FLIGHTS FOR KIDS, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 – NATURE OF OPERATIONS

Miracle Flights for Kids, Inc. (MFFK) was founded in 1985 and is a nonprofit organization operating under the laws of the state of Nevada. Its mission is dedicated to helping low income very sick children overcome financial obstacles that prevent them from accessing proper medical care and second opinions. MFFK is qualified as a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code (“IRC”) and is exempt from state and local taxes under corporate laws.

MFFK flies children who are struggling with serious cancers and other debilitating diseases to specialized medical treatment centers across the United States. Any child needing medical treatment or seeking a second opinion not available in their own home town is eligible to apply for a miracle mission. To date, the Organization has provided more than 90,000 nationwide airline flights to facilitate urgent medical care for children in need.

On May 14, 2013, the Organization formed MFFK Holdings, Inc., under the laws of the state of Nevada and is a qualified tax exempt organization under Section 501(c)(2) of the IRC (“Holdings”). The sole purpose is to hold commercial real estate property located in Las Vegas, Nevada. On June 28, 2013 Holdings purchased, for cash, two commercial properties for the total sum of \$10.9 million with the intent of leasing out office space. MFFK relocated to these facilities in January of 2014.

MFFK and Holdings will collectively be referred to as the “Organization”.

2 - RESTATEMENT

Management of the Organization determined certain annuities, carried on the books as investments in prior years, should have instead been recorded in the corresponding period as compensation expense. Additionally, a pension plan obligation with an estimated valuation of \$2,379,589 at April 30, 2013, was not recorded as a liability in the years in which the obligation arose. As a result, these financial statements have been restated to reflect errors in the amounts of \$361,563 relating to annuities and \$2,379,589 of accrued pension obligations, both of which reduce unrestricted net assets of the Organization. Also, prior year’s financial statements did not properly include expenses amounting to \$91,124 that should have been accounted for during the prior period. The effect of these changes on the consolidated statement of financial position as of April 30, 2013 is as follows:

	April 30, 2013	
	As Previously Reported	Restated
Annuities	\$ 361,563	\$ -
Pension benefit obligation	-	(2,379,589)
Accrued expenses	-	(91,124)
Unrestricted net assets	42,384,390	39,552,114

MIRACLE FLIGHTS FOR KIDS, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP") as applicable to not-for-profit organizations.

The Organization's net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions into the following three categories:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by action of the Organization and/or the passage of time.

When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that must be maintained permanently by the Organization. Generally, the donors of these assets would permit the Organization to use all or part of the income earned on any related investments for general or specific purposes. There were no permanently restricted net assets at April 30, 2014.

Principles of Consolidation

The consolidated financial statements include the accounts of MFFK and its affiliate, Holdings. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash balances in banks are insured by the Federal Deposit Insurance Corporation subject to certain limitations. For purposes of the statement of cash flows, the Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

MIRACLE FLIGHTS FOR KIDS, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Property and equipment are stated at cost at the date of acquisition or fair value at the date of donation or purchase. The Organization capitalizes all fixed assets over \$500 with an estimated useful life of greater than five years. Depreciation is provided using the straight line method over the estimated useful lives of the respective assets as follows:

Building	39 years
Computers & equipment	5 years
Furniture and fixtures	5 years
Automobiles	5 years

Long-Lived Assets

Long-lived assets are reviewed for impairment when changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Organization evaluates the recoverability of its long-lived assets whenever events or changes in circumstances indicate that a recorded asset might not be recoverable by taking into consideration such factors as recent operating results, projected undiscounted cash flows and plans for future operations. Assets to be disposed of and assets not expected to provide any future service potential to the Organization are recorded at the lower of carrying amount or fair value less cost to sell. Although management believes the assumptions used in testing for impairment are reasonable, changes in any one of the assumptions could produce a significantly different result. In management's judgment, there were no impairments of any long-lived assets as of April 30, 2014.

Functional Allocation of Expenses

The costs of providing various program and supporting services have been summarized on a functional basis in the accompanying consolidated statement of functional expenses. Accordingly, certain costs have been consistently allocated among the program and supporting services in reasonable amounts and ratios determined by management.

Revenue Recognition

Contributions are recorded when they are received. Promises to give (pledges) are recorded at their net present value when collection of the gift is reasonably assured. Contributions are considered to be unrestricted unless specially restricted by the donor. Donated property and services requiring specialized skills are recorded at the estimated fair market value on the date of the gift.

Rental income is recognized as rentals become due. Rental payments received in advance are deferred until earned. All leases between Holdings and the tenants of the building are operating leases.

MIRACLE FLIGHTS FOR KIDS, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated Services and Materials

Donated services are recognized as in-kind donations if the services create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

Income Taxes

The Internal Revenue Service has determined that MFFK and Holdings are charitable organizations exempt from federal income taxes under Sections 501(c)(3) and 501(c)(2), respectively, of the IRC.

Federal and State information returns for years prior to fiscal 2011 are no longer subject to examination by tax authorities.

Fair Value Measurement

GAAP requires certain financial assets and liabilities to be measured at fair value. GAAP defines fair value, provides guidance for measuring fair value, requires certain disclosures and discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow) and the cost approach (cost to replace the service capacity of an asset or replacement cost). GAAP also provides for a fair value hierarchy that prioritizes the inputs of valuation techniques used to measure fair value into three brand levels. The following is a brief description of those three levels:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices those are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs that reflect management's own assumptions.

The following is a description of the valuation methodologies used for the investments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

MIRACLE FLIGHTS FOR KIDS, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value (continued)

Investments, Annuities

Variable annuities are insurance products that are complex long-term investment vehicles that are subject to market risk. They are stated at fair value based upon quoted prices and the change in fair value is recorded in investment gain and other income on the accompanying Consolidated Statement of Activities and Changes in Net Assets. Investments in annuities are classified as Level 3 investments. Total balance in annuities as of April 30, 2014 is \$3,644,648.

Pension Benefit Obligation

The Organization has a Pension Benefit Obligation which is stated at fair value based upon management's estimate using level 3 inputs. For more information regarding the Pension Benefit Obligation see Footnote 11.

Subsequent events

These financial statements were approved by management and available for issuance on November 18, 2014. Management has evaluated subsequent events through this date.

4 - ALLOCATION OF JOINT COSTS

The Organization does fundraising and program services through professional outreach companies. In 2014, the Organization incurred \$500,326 of these costs and all of these amounts were considered joint costs under GAAP. Of these costs, \$335,219 was allocated to MFFK program expenses and \$165,107 was allocated to fundraising, using the physical units method.

The allocation under the physical units method is based on lines of print from the documents and scripts used in the above activities. Each line of print is analyzed and a determination is made as to its purpose. The number of lines for each objective is totaled and weighed against the total number of lines in the document as well as the frequency of use of the document. The joint costs are then allocated to their proper objective based on the results of this process.

5 - CERTIFICATES OF DEPOSIT

The Organization has four certificates of deposit. The first certificate of deposit is held with Synchrony Bank formerly GE Capital Retail Bank. It matures in April 2015, bears interest at a rate of 1.15% and has a value of \$260,879 as of April 30, 2014. The Organization also has three certificates of deposits with TD Ameriprise for a total value of \$11,009,167. Each of these certificates have 13 month terms and bear interest at 1.10%.

MIRACLE FLIGHTS FOR KIDS, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 - ANNUITIES

Annuities consist of the following at April 30, 2014:

Annuities, beginning of year	\$	-
Purchases of annuities		3,652,361
Change in fair value		(7,713)
	\$	3,644,648

In March 2014, the Organization entered into an annuity contract with an initial purchase price of \$3,652,361. The contract owner and beneficiary of the annuity is MFFK. The contract is classified as a non-qualified contract and the annuitization payments to MFFK do not begin until April 7, 2042. The Organization is able to surrender the annuity at any time during the contract and will be charged a fee if surrendered. The total cash surrender value of the annuity at the balance sheet date is \$3,384,662.

7 – NOTE RECEIVABLE – RELATED PARTY TRANSACTION

In May 2013, MFFK purchased a \$2.2 million promissory note (“Note”) from Med-Lien Management, Inc. carrying an annual interest rate of 20%. The principal amount of the note is due in one lump-sum payment on April 30, 2016. The note may be prepaid at any time for the amount of the principal sum plus 10% and any interest due up to and including the date of the payoff.

MFFK has elected to account for the promissory note on the cost recovery method due to the uncertainty of collectability surrounding the receivable. To date, the note has paid according to terms and during fiscal year 2014 \$220,000 of interest has been received from Med-Lien Management, Inc. The aggregate balance of interest payments received during the year, \$220,000, has been applied directly against the outstanding receivable balance. All subsequent interest payments will be applied against the principal, and any amounts in excess of the principal amount outstanding will be recorded as income in the fiscal year received. As of April 30, 2014, the total note receivable balance outstanding was \$1,980,000. Subsequent to April 30, 2014 two scheduled interest payments were received on the Note.

8 - IN-KIND CONTRIBUTIONS

For the year ended April 30, 2014, the Organization received \$848,816 of in-kind donations, which consist primarily of donated flights and flight resources. These services have been reported as unrestricted revenue and the related in-kind expenses have been included in the MFFK services under travel resources.

MIRACLE FLIGHTS FOR KIDS, INC. AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9 – PROPERTY AND EQUIPMENT, AT COST

The Organization's property and equipment, at cost, consists of the following:

Land	\$ 1,797,518
Building	9,069,968
Automobiles	25,417
Computers and equipment	4,145
Furniture and fixtures	99,446
	10,996,494
Less – accumulated depreciation	(293,445)
	\$ 10,703,049

Depreciation expense for the year ended April 30, 2014 was \$198,400.

10 – CONCENTRATIONS

Leases – Rental Income

Holdings leases space to eight tenants (including MFFK), with three tenants representing of 49%, 18%, and 11%, respectively, of the total rental income.

Expenses

The Organization incurs community outreach expenses to generate pledge contributions; one vendor represented 20% of total expenses in the Statement of Functional Expenses.

11 - COMMITMENTS AND CONTINGENCIES

Leases – Rental Income

Holdings has 11 lease agreements with 8 tenants that occupy the building as of April 30, 2014. The tenants are responsible for their proportional share of common area charges such as real estate taxes, insurance, and utilities. The leases have non-cancellable terms expiring from 2014 through 2018.